



WEEKLY ECONOMIC COMMENTARY



30 Oct 2023 | Westpac Economics Team | westpac.co.nz/economics | nzeconomics@westpac.co.nz

Wage growth peaking as unemployment rises?

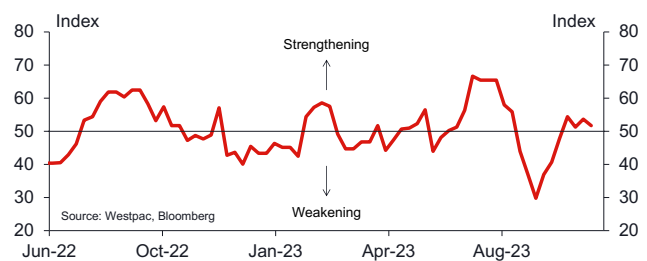
While recent softer-than-expected CPI data has probably taken the prospect of a rate hike off the table at the RBNZ's 29 November meeting, there will still be plenty of local interest in this week's September quarter labour market surveys (released 1 November). At the very least, developments in the labour market will have a bearing on the tone of the commentary in the Monetary Policy Statement and on prospects for a rate hike next year at the first meeting in late February (by which time a further set of CPI and labour market data will also have been released). After all, a projected marked loosening of the labour market is a critical part of our forecast – and that of the RBNZ – that domestic inflation will moderate by enough to allow overall CPI inflation to move back into the target range over the coming year or so.

After several quarters of very strong growth, indicators to hand suggest that employment growth has begun to slow in recent months. As usual our estimate of employment growth is guided by the monthly employment indicator (MEI). The MEI – taken from tax filings – points to growth in filled jobs during July and August, but at a slower pace than seen earlier this year. While official MEI data for the September month won't be released until 30 October, weekly information suggests a continuation of the recent softer trend. As a result, we estimate that the MEI will point to a 0.5% lift in filled jobs in the September quarter. Allowing for the possibility of some people taking second jobs in response to the increasing pressures on household finances, together with greater softness in employment not covered by the MEI, we estimate that the HLFS will report a 0.4% lift in household employment in the September quarter.

Key views

	Last 3 months	Next 3 months	Next year
Global economy	↘	↘	↗
NZ economy	↘	→	↗
Inflation	↘	↘	↘
Short-term interest rates	↗	↗	→
Long-term interest rates	↗	→	↘
NZD/USD	↘	↗	↗
NZD/AUD	→	↘	↘

Westpac New Zealand Data Pulse Index



Key data and event outlook

Date	Event
1 Nov 23	Labour market statistics, September quarter
1 Nov 23	RBNZ Financial Stability Report
1 Nov 23	FOMC Meeting (Announced 2 Nov NZT)
3 Nov 23	Official results of General Election declared
7 Nov 23	RBA Board Meeting
9 Nov 23	Govt finances for the 3 months to September
29 Nov 23	RBNZ Monetary Policy Statement and OCR
5 Dec 23	RBA Board Meeting
13 Dec 23	FOMC Meeting (Announced 14 Dec NZT)
14 Dec 23	GDP September quarter
18 Dec 23	Half Year Economic and Fiscal Outlook (TBC)
16 Jan 24	QSBO Business Survey, December quarter (TBC)
24 Jan 24	CPI, December quarter

Turning to labour supply, Statistics New Zealand has already reported that the working age population increased by 0.6% in the September quarter, lifting annual growth to a new high of 2.6%. This reflects the ongoing surge in migrant arrivals since late last year. Given our assessment of likely employment growth, the implications for the unemployment rate hinge on developments in labour force participation. The labour force participation rate recorded its fifth consecutive increase in the June quarter, rising to a new record high of 72.4%. Pressures on household finances, due to high inflation and rising mortgage interest rates, may be causing more people to seek work. That said, participation rates for women and older persons have been trending higher for many years. It also seems likely that migrants' average participation rate exceeds that of the general population, reflecting the age structure of migrants and the fact that many are arriving on work visas. We have assumed a further 0.1ppt increase in participation to 72.5% in the September quarter.

Given the above, we estimate that Statistics NZ will report a 0.3ppts increase in the unemployment rate to 3.9%, continuing the uptrend that began early last year. Our forecast is supported by several independent indicators. For example, we note that the NZIER's September QSBO survey pointed to a marked reduction in perceived skilled shortages and a sharp reduction in the proportion of firms citing labour as a constraint on output. Meanwhile, the uptrend in the number of people on Jobseeker benefits – albeit only loosely correlated with the unemployment rate – has continued through the quarter (recent migrants will not be eligible to receive these benefits). Aside from the unemployment rate, we will also be interested in developments in the underutilisation rate – a broader measure that includes, for example, those seeking more work. The latter stepped up 0.7pts to 9.8% in the June quarter.

Given comments made at the October meeting, we are sure that the RBNZ will be paying particular attention to the wage information released next week. We expect that the overall Labour Cost Index (LCI) will increase 1.1% in the September quarter, causing annual growth to nudge down to 4.2%. Pay settlements in the healthcare and education sectors should contribute to a large increase in the public sector. Perhaps more importantly for the RBNZ, we expect the private sector LCI to increase by 1.0% in the September quarter. This is less than the 1.1% growth recorded in the June quarter – which was influenced by the 7% lift in the minimum wage – and 0.2ppts lower than the same quarter a year earlier, so lowering annual growth to 4.1%. While still high by historic standards, reflecting past tightness in the labour market, such an outcome would suggest that the peak in wage growth has passed.

If the labour market data pan out much as we expect they will likely have little impact on the RBNZ's view of the economy or policy outlook. Our estimate of employment growth is only fractionally stronger than that forecast by the RBNZ back in August. With migrant inflows also boosting the labour force more than the RBNZ had estimated previously, our estimate of the unemployment rate is also fractionally higher than the RBNZ's forecast. Our forecast for the increase in wages is in line with the RBNZ's forecast.

Aside from the labour market data, there are two other releases of note in the coming week's Kiwi economic diary. Most interest will probably centre on the latest ANZ Business Outlook Survey. In contrast to the quarterly QSBO business survey, the monthly ANZ survey has pointed to a material improvement in business confidence and key sentiment indicators from the lows seen earlier this year, although the level of these indicators remains low relative to average historical experience. The inflation expectations and pricing indicators will be of particular interest to see whether they have continued their contrasting declining trend, coming from historically high levels. The building consents report for September will also be of interest following an unexpectedly steep decline in residential building consents during August. Finally, on Friday the official results of this month's General Election will be released, which may have a bearing on the structure of the centre-right coalition government that is currently being negotiated.

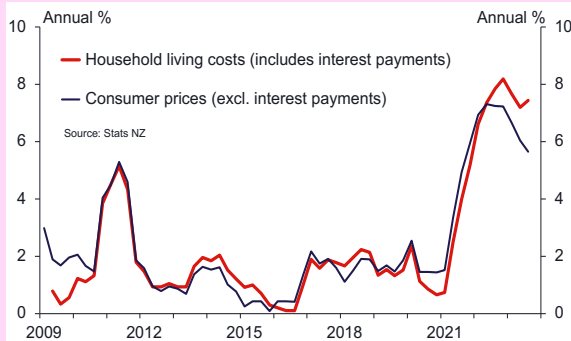
Darren Gibbs, Senior Economist

Chart of the week.

The most commonly quoted measure of inflation in New Zealand is the Consumers Price Index, which rose 5.6% in the year to September. But while the CPI tracks the average basket of goods and services that New Zealand households purchase, one notable omission is mortgage interest costs. For those families with mortgages, interest costs currently account for around 15% of their spending.

In contrast, Stats NZ's broader Household Living Cost Index does include mortgage costs and is up 7.4% over the past year. Notably, overall household living costs - including spending on mortgages - have been rising faster than the CPI or wages for over a year now. That's important, highlighting that even as goods and services inflation is easing, higher interest rates are sucking a large amount out of households' wallets. That will be a growing drag on economic growth as increasing numbers of borrowers roll on to higher fix mortgage rates.

Household living costs continuing to rise faster than CPI

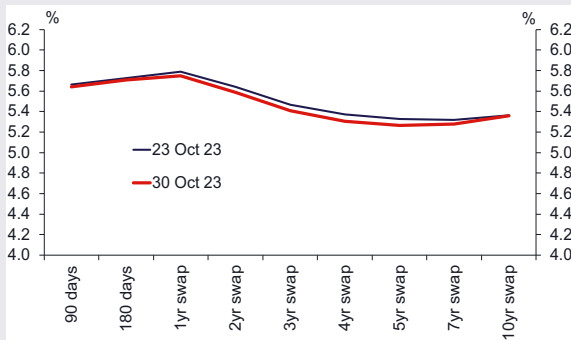


Fixed versus floating for mortgages.

The RBNZ has signalled that it expects to hold the cash rate at its current level of 5.50% for an extended period. We see a risk that the OCR could go higher in the coming months, and that interest rate cuts could be some time away.

We see value in fixing for terms as long as three years. Shorter terms could be more expensive, but would provide borrowers with greater flexibility.

NZ interest rates



Global wrap

North America

US GDP grew 4.9%AR in Q3, beating expectations. Consumer spending benefitted from a 1.4ppt decline in the household savings rate to 3.8%, while firms built up inventories. As a result, some payback is likely in the Q4 GDP report. Meanwhile, the bond market took heart from a 2.4%AR lift in the core PCE deflator, which was the smallest increase since Q4 '20. A big week ahead in the US includes the latest FOMC meeting, although it seems very likely that the policy will remain unchanged. The US will also print a slew of economic data, including the October non-farm payrolls report, Q3 employment costs, the Conference Board's consumer survey and the ISM surveys. Collectively these reports will have some bearing on whether the Fed tightens at its December meeting, when it will also release updated projections. Elsewhere in North America, following last week's 'hawkish hold' by the BoC, Canada's October employment report will be of interest.

Asia-Pacific.

Downside risks to China's near-term growth prospects have receded slightly with the Government agreeing to widen this year's fiscal deficit by 0.8ppts to 3.8% of GDP, with funds to be targeted towards disaster recovery and mitigation. This week the focus in China will be Tuesday's official PMI reports for October. Tuesday is also the key day in Japan. In addition to the release of IP, retail sales and labour market data, the BoJ will review its policy settings and publish its quarterly Outlook Report. While we are not expecting a policy change at this meeting, the BoJ's commentary will help conditions expectations for the eventual timing of further policy normalisation. In Australia, following a stronger than expected CPI report, we are now expecting the RBA to lift its policy rate on 7 November. However, we don't view a hike as a foregone conclusion, and so this week's retail sales, housing approvals, credit growth, trade and PMI reports will be awaited with interest.

Europe.

As widely expected, following 10 consecutive rate hikes, the ECB left its policy rate at 4% last week. ECB President Lagarde noted that euro area growth was likely to remain weak over the remainder of this year, but with inflation still "too high" she wisely refused to rule out a further rate hike. This Tuesday's flash Q3 GDP and October inflation reports will likely point to a modest contraction in activity but a core inflation rate still more than double the ECB's target, albeit trending lower. In the UK, the focus will be on Thursday's BoE meeting, with the Bank likely to extend last month's hotly-debated pause in the tightening cycle.

Trading partner real GDP (calendar years)

	Annual average % change			
	2021	2022	2023	2024
Australia	5.2	3.7	1.9	1.2
China	8.4	3.0	5.3	5.3
United States	5.9	2.1	2.2	1.4
Japan	2.1	1.1	1.6	1.0
East Asia ex China	4.3	4.5	3.5	4.3
India	9.1	6.8	6.4	6.4
Euro Zone	5.4	3.5	0.6	1.1
United Kingdom	7.6	4.0	0.3	0.5
NZ trading partners	6.2	3.2	3.4	3.3
World	6.3	3.4	3.0	3.1

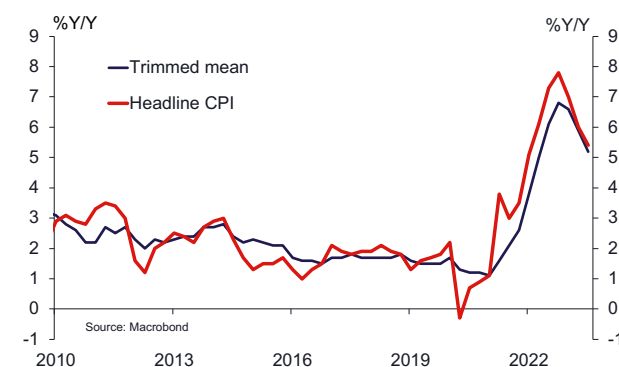
Australian & US interest rate outlook

	Latest	Dec-23	Jun-24	Dec-24
Australia				
Cash	4.10	4.35	4.35	3.85
90 Day BBSW	4.31	4.55	4.47	4.37
3 Year Swap	4.50	4.40	4.20	4.00
3 Year Bond	4.29	4.20	4.00	3.80
10 Year Bond	4.80	4.70	4.50	4.30
10 Year Spread to US (bps)	-5	-10	-10	-10
US				
Fed Funds	5.375	5.375	4.875	4.375
US 10 Year Bond	4.85	4.80	4.60	4.40

US GDP growth



Australian CPI inflation



Financial markets wrap

Interest rates.

NZ swap rates for shorter maturities continued to decline last week, the slightly softer Q3 CPI data two weeks ago still weighing on market expectations of the RBNZ. A November hike has been completely priced out, while February is priced as a 25% chance. Longer term swap rates, though, have remained elevated in sympathy with offshore counterparts (e.g. Australian rates rose following stronger CPI data last week). As a result, the yield curve steepened (or disinverted) further.

This week's event calendars in NZ and offshore contain significant market-moving potential. In NZ, labour data will be important for the stance of RBNZ monetary policy. Offshore, the main event will be the policy rate decision from the Federal Reserve (expected to remain on hold with a conditional hiking bias), followed by the monthly jobs data. There are also policy decisions from the Bank of England and Bank of Japan, both also expected to remain on hold.

The above events pose risks to NZ interest rates in both directions. That said, regardless of any data surprises on the day, we expect the yield curve steepening trend to persist for many months yet.

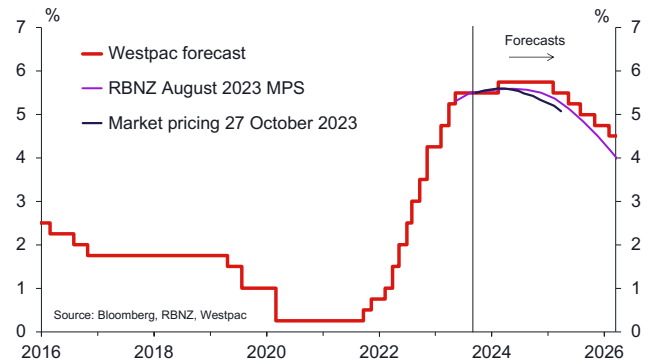
Foreign exchange.

NZD/USD continued to probe lower last week, reaching 0.5774 – a low since November 2022. The main drivers of the decline have been receding expectations the RBNZ will hike again, and global risk aversion emanating from the war in the Middle East. On the latter, we note that Israel has started a ground offensive, which could weigh on markets today.

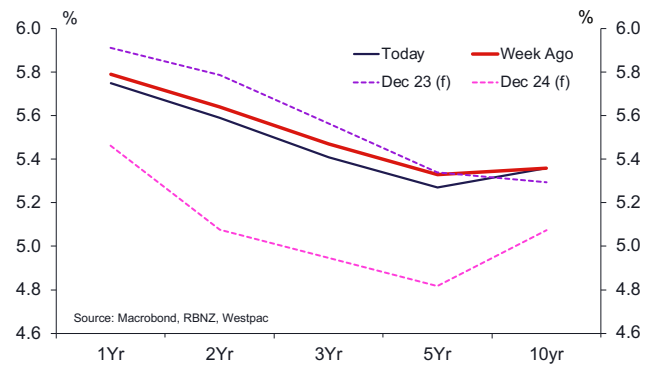
The 8c fall in NZD/USD this year does present attractive hedging opportunities for exporters. Partial hedging around 0.5800 would be worthy of consideration, reserving some for a possible break lower towards the 0.5500-0.5650 area during the month ahead.

NZD/AUD fell sharply after the stronger AU CPI outturn last week, which caused economists (including Westpac's) to revise expectations of the RBA at next week's meeting to a hike. There's potential for further weakness towards 0.9100, if the RBA delivers a hawkish outcome, which would attract interest from NZ exporters.

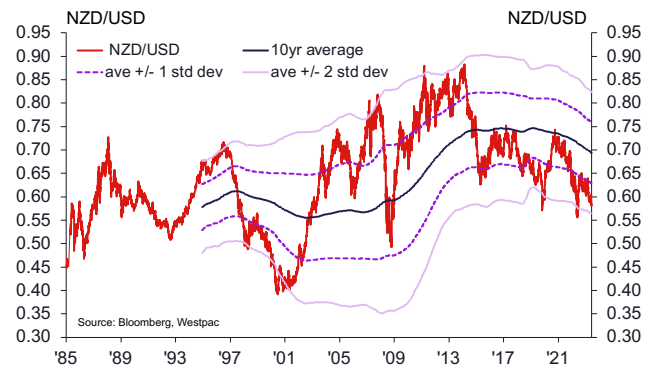
Official Cash Rate forecasts



Swap rates



NZD/USD vs rolling 10yr average



FX recent developments

	Historical data				F'cast
	Spot	3mth range	5yr range	5yr avg	Dec-24
USD	0.582	0.578-0.624	0.555-0.743	0.656	0.62
AUD	0.918	0.916-0.939	0.873-0.992	0.934	0.89
EUR	0.550	0.543-0.570	0.517-0.637	0.587	0.55
GBP	0.480	0.464-0.492	0.464-0.551	0.511	0.49
JPY	87.0	86.0-89.8	61.3-89.8	77.2	86.1

The week ahead

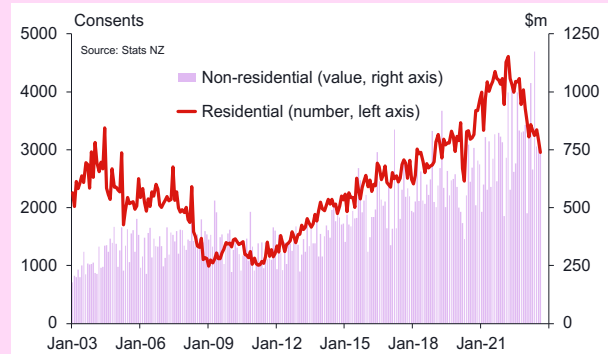
NZ Sep building consents

Oct 31, Last: -6.7%, Westpac f/c: Flat%

Dwelling consent issuance has fallen sharply over the past year in response to higher interest rates, a weaker housing market and sharp rises in building costs. In the year to August just over 42,000 new dwellings were consented – down 17% from the levels we saw last year.

We expect that monthly consent issuance will hold around current levels in September. While the above conditions are continued to weigh on construction activity, there's likely to be some recovery in the more volatile building categories following earlier weakness.

NZ building consents



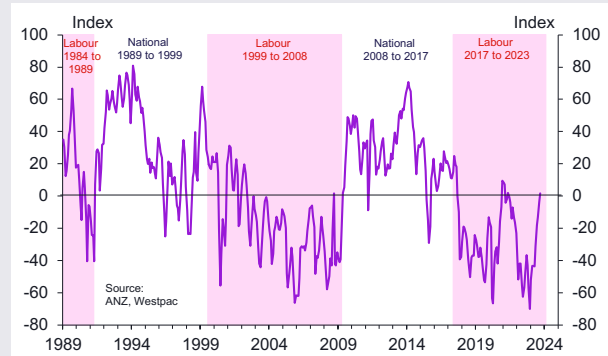
NZ Oct ANZBO business confidence

Oct 31, Last: 1.5

The October business survey comes in the wake of the recent General Election which saw centre-right parties gaining a majority of seats in Parliament. Business confidence is strongly influenced by political cycles, and it has tended to take a step higher when centre-right parties take office. We expect that pattern will be repeated in the October survey, building on the rise seen in recent months.

However, while confidence is pushing higher, businesses are still dealing with some challenging trading conditions. In particular, we'll be keeping a close eye on the surveys gauges of cost pressures, with businesses continuing to report pressure on margins.

Business confidence



NZ Q3 labour market surveys

Oct 17, Quarterly – Last: +1.1%, Westpac: +1.9%

Annual – Last: +6.0%, Westpac: +5.8%

Indicators suggest a 0.4% lift in employment in the September quarter – a solid gain but less than half the pace recorded in recent quarters. So with substantial migrant arrivals and an uptrend in the participation rate continuing to boost the labour force, we expect the unemployment rate to rise by 0.3ppts to 3.9% (0.7ppts above last year's historic low).

Turning to wages, we expect the Labour Cost Index to increase 1.1%, which should cause annual growth to nudge down to 4.2% – still high by historical standards, reflecting past labour market tightness, but suggesting that the cycle may have peaked.

Our forecasts are not materially different to the RBNZ's. So if the data meet our expectations, they are unlikely to have much impact on the Bank's outlook for the economy and monetary policy.

NZ labour market indicators

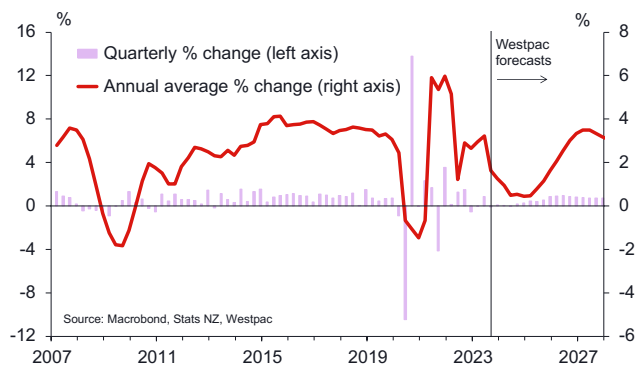


Economic and financial forecasts

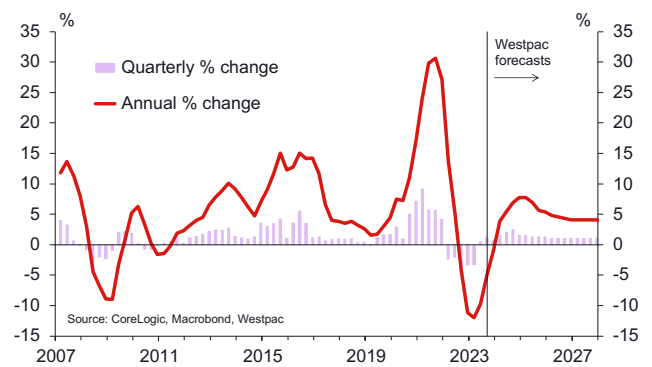
Economic indicators	Quarterly % change				Annual % change			
	Jun-23	Sep-23	Dec-23	Mar-24	2021	2022	2023	2024
GDP (production)	0.9	-0.1	0.1	0.0	6.0	2.7	1.3	0.4
Consumer price index	1.1	1.8	0.5	0.7	5.9	7.2	4.7	2.8
Employment change	1.0	0.4	0.0	0.0	3.3	1.7	2.5	-0.1
Unemployment rate	3.6	3.9	4.3	4.7	3.2	3.4	4.3	5.2
Labour cost index (all sectors)	1.1	1.1	1.0	0.8	2.6	4.1	4.2	3.3
Current account balance (% of GDP)	-7.5	-7.5	-7.0	-6.3	-5.8	-8.8	-7.0	-4.8
Terms of trade	0.4	-3.2	0.8	2.5	2.8	-4.2	-3.5	7.8
House price index	0.5	1.1	0.7	1.5	27.1	-11.2	-1.0	7.7

Financial forecasts	End of quarter				End of year			
	Jun-23	Sep-23	Dec-23	Mar-24	2021	2022	2023	2024
OCR	5.50	5.50	5.50	5.75	0.75	4.25	5.50	5.75
90 day bank bill	5.62	5.66	5.85	5.85	0.82	4.26	5.85	5.75
2 year swap	5.18	5.53	5.79	5.67	2.08	5.10	5.79	5.08
5 year swap	4.44	4.90	5.34	5.22	2.46	4.67	5.34	4.82
10 year bond	4.27	4.87	5.45	5.45	2.39	4.31	5.45	5.15
TWI	70.9	70.6	70.3	69.9	74.3	70.8	70.3	68.6
NZD/USD	0.62	0.61	0.61	0.61	0.70	0.60	0.61	0.62
NZD/AUD	0.93	0.92	0.92	0.92	0.95	0.92	0.92	0.89
NZD/EUR	0.57	0.56	0.55	0.55	0.61	0.59	0.55	0.55
NZD/GBP	0.49	0.48	0.48	0.48	0.52	0.51	0.48	0.48

GDP growth



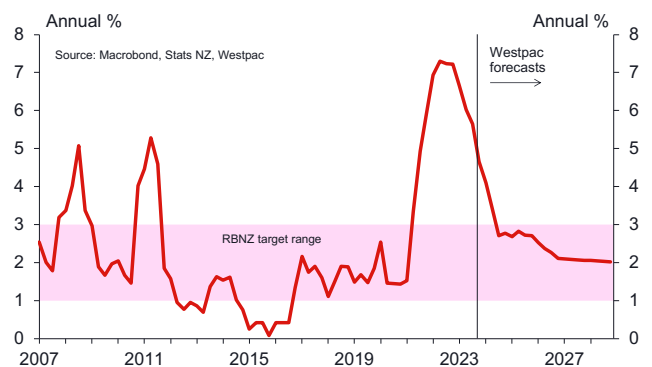
House prices



Employment and wage growth



Consumer price inflation



Data calendar

		Last	Market median	Westpac forecast	Risk/Comment
Mon 30					
NZ	Sep Monthly Employment Indicator	0.20%	-	0.10%	Tax data suggests growth in filled jobs is slowing.
Aus	Sep retail sales	0.20%	0.30%	0.70%	Card data suggests retail posted a decent rise in Sep.
Eur	Oct economic confidence	93.3	-	-	Pessimism looms as impact of rate hikes materialises.
US	Oct Dallas Fed index	-18.1	-	-	Manufacturing conditions fickle and susceptible to shock.
Tue 31					
NZ	Sep building consents	-6.7%	-	0.0%	Annual consent issuance is continuing to soften.
	Oct ANZ business confidence	150.00%	-	-	Potential post election bounce.
Aus	RBA Assist' Gov (Financial Mkts)	-	-	-	Jones speaking at AFIA Conference, 10:50am AEDT.
Jpn	BoJ policy decision	-0.10%	-0.10%	-	No change until wages growth shows meaningful impact.
	Sep industrial production	-0.7%	2.50%	-	Cars a bright spot in otherwise sombre report.
Chn	Oct manufacturing PMI	50.2	50.2	-	Stimulus could lift manufacturing sentiment.
	Oct non-manufacturing PMI	51.7	51.8	-	Lack of confidence is limiting services outlook.
Eur	Q3 GDP	0.10%	-	-	Growth hanging on by a thread.
	Oct CPI %yr	4.30%	-	-	Further easing expected, though energy remains a risk.
US	Q3 employment cost index	1.00%	1.00%	1.00%	Wage gains to ease as demand and supply of labour aligns.
	Aug S&P/CS home price index	0.90%	-	-	Low inventory keeping prices up.
	Oct Chicago PMI	44.1	44.8	-	Businesses are still downbeat.
	Oct consumer confidence index	103	100	-	Consumer resilience is a bright spot in the economy.
Wed 01					
NZ	Q3 employment	1.00%	0.40%	0.40%	Job growth likely still positive, but clearly slowing.
	Q3 unemployment rate	3.60%	3.90%	3.90%	Unemployment rising due to strong labour force growth.
	Q3 LCI (private sector)	1.10%	1.00%	1.00%	Wage growth elevated, but peaking as labour slack grows.
	RBNZ Financial Stability Report	-	-	-	Pre-released materials signals a focus on farm sector risks.
Aus	Oct CoreLogic home value index	0.90%	-	1.00%	Daily measure continues to punch out solid gains.
	Sep dwelling approvals	7.00%	2.50%	5.00%	Pull-forward in NSW to give temporary boost.
Chn	Oct Caixin manufacturing PMI	5060.00%	50.8	-	Sentiment inhibited by slow demand.
US	Oct ADP employment change	89k	135k	-	Often at odds with BLS data.
	Sep JOLTS job openings	9610k	-	-	Easing as labour demand eases.
	Oct ISM manufacturing	49	49	-	Production and employment upbeat while new orders lag.
	FOMC policy decision, midpoint	5.375%	5.375%	5.375%	Hard work is done, time to wait and watch.
Thu 02					
Aus	Sep trade in goods balance \$bn	10.4	9.6	10.4	Xs up on commodity prices. Ms anticipate volume rebound.
UK	BoE policy decision	5.25%	-	5.25%	Easing inflation to keep BoE on hold.
US	Q3 productivity	3.50%	3.80%	-	First estimate.
	Initial jobless claims	210k	-	-	To remain near lows, for now.
	Sep factory orders	1.20%	1.00%	-	Recovery some time away.
Fri 03					
NZ	Final General Election results	-	-	-	Centre-right govt confirmed, but likely with narrower majority.
Aus	Q3 real retail sales	-0.5%	-0.3%	flat	Nominal sales +0.6%qtr but all due to higher prices.
	RBA Assist' Gov (Financial Mkts)	-	-	-	Jones speaking at FINSIA, 11:30am AEDT.
Chn	Oct Caixin services PMI	50.2	-	-	Lack of COVID stimulus is muting services demand.
Eur	Sep unemployment rate	6.40%	-	-	A reversal of employment gains are coming.
US	Oct non-farm payrolls	336k	168k	190k	Sep a very strong report; watch out for further revisions...
	Oct unemployment rate	3.80%	3.80%	3.80%	... household survey and hourly earnings...
	Oct average hourly earnings %mth	0.20%	0.30%	0.30%	... point to a softer pulse than payrolls.
	Oct ISM non-manufacturing	53.6	53	-	A resilient consumer is driving healthy growth.

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